

VZCZCXYZ0000
PP RUEHWEB

DE RUEHLJ #0061/01 0681707
ZNY CCCCC ZZH
P 091707Z MAR 09
FM AMEMBASSY LJUBLJANA
TO RUEHC/SECSTATE WASHDC PRIORITY 7205
INFO RUEAIIA/CIA WASHDC
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RHEHNSC/NSC WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC

C O N F I D E N T I A L LJUBLJANA 000061

SIPDIS

STATE FOR EEB, EUR/CE

E.O. 12958: DECL: 03/09/2019
TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [PREL](#) [SI](#)
SUBJECT: SLOVENIAN ECONOMY DOWN, BUT NOT OUT

REF: A. LJUBLJANA 60
[1](#)B. 08 LJUBLJANA 487
[1](#)C. 08 LJUBLJANA 496
[1](#)D. 08 LJUBLJANA 516
[1](#)E. 08 LJUBLJANA 550

Classified By: CDA BFreden, reason 1.4(b,d)

Summary

[1](#)1. (C) Slovenia is facing the most severe economic times in its eighteen-year history. A director of the Government Institute of Economic Analysis and Development (IMAD) said at a press conference on that the first quarter of 2009 will be the worst since independence and that Slovenia has not yet hit the bottom. Minister of Finance Krizanic confirmed his belief that the first quarter will see negative year-on-year growth. However, amid all the gloomy comments, the Slovenian economy appears to be chugging along better than most. Although GDP growth projections have repeatedly been revised downwards, the overall 2009 projections have not yet dipped negative, with the latest official projections at 0.6% growth. According to the European Commission, Slovenia is one of only a few economies in the EU that is expected to expand this year. In recent separate meetings with CDA, both Prime Minister Pahor and Minister of Finance Krizanic expressed optimism and satisfaction with the basic fundamentals of the Slovenian economy. End Summary.

Times are tougher... but don't overreact

[1](#)2. (C) On March 5, Bostjan Vasle, the head of the IMAD told a press conference that "Judging from forecasts and estimates, the data coming from the financial and real sector are quite bad." IMAD estimates a sharp slowdown in economic activity in Slovenia in the last quarter of 2008, with sharp declines in exports, manufacturing output, construction, and retail revenues in December 2008. However, Minister of Finance Krizanic assessed that the fourth quarter numbers may reflect some knee-jerk reactions to the global crisis. According to Krizanic, first quarter 2009 will also likely show difficult numbers, but Slovenia has taken strong steps to counter the effects of the global crisis and more importantly to calm investors and manufacturers fears.

[1](#)3. (C) Prime Minister Barut Pahor assured CDA on March 5 that the government is dealing with the crisis. He said that he is basically satisfied, although he is concerned about unemployment, which is "a little high" at 4.7%. (The European Commission expects that number to rise to 5.2% by the end of 2009). Pahor also expressed concern that economic growth had slowed to near zero, but acknowledged that Slovenia was still better off than many of its neighbors. Pahor said he had declined the invitation to attend the mini-summit of Eastern European countries hosted by the

Polish embassy in Brussels because Slovenia does not have the same economic problems as its neighbors outside the Eurozone.

He stated that he would be much more concerned if Slovenia had not adopted the Euro, calling that "a key element in Slovenia's story."

¶4. (C) On March 6, Finance Minister France Krizanic told CDA that Slovenian manufacturers overreacted to a drop in orders from key export markets. Several manufacturers cut working hours, reduced their inventories to one week, and started cutting short-term contract laborers (ref A). He explained that the panic hit quickly on news of negative growth in key export markets - specifically Germany. At the same time, year-on-year industrial orders fell by nearly 40%. Slovenian manufacturers reacted immediately, and industrial output dropped 12.8% from October to November.

¶5. (C) Supporting Minister Krizanic's view of "overreaction," Revoz, local manufacturer of Renault cars and Slovenia's biggest exporter, is already bouncing back. In September 2008, Revoz cut production from 900 to 750 vehicles per day, and laid off 200 workers, mostly foreign temps. At the end of February, Revoz reversed its cutbacks from the end of 2008 and announced that it will hire 150 people in April to increase production to 880 vehicles per day. The bounce in demand can be attributed to Germany's announcement that it will subsidize the purchase of new cars.

Real estate and construction weaker, but still growing

¶6. (U) Unlike much of Europe, home prices in Slovenia continue to climb. According to the media, while the price of apartments in Ljubljana rose only 3.4% in 2008, the price of houses rose 10.1% in 2008 (down from a rise of 13.1% in 2007) and house prices in the outskirts of the capital went up by 13.7%. Not only did sale prices go up; apartment rents in Ljubljana rose 11.8% in 2008 - up 8% in the second half of the year alone. Ljubljana showed the most dramatic increases, but real estate prices were up across the entire country.

¶7. (U) The rise in prices seems counterintuitive given the slowdown in construction. Rising inventories of unsold homes and the unwillingness of banks to roll-over their debts are squeezing the construction sector, which only months ago had been one of the main engines of Slovenian economic growth. The media reported that in early 2004, construction's share of GDP stood at 5.5%, but rose to 8.5% in the third quarter of 2008. With new housing construction slowing, and businesses wary of spending on new office space in the current economic situation, the construction industry is looking toward government spending on infrastructure projects - specifically highways, railroads and power plants (reftels). Those hit hardest by the decline in construction are often immigrants from other former Yugoslav republics, who are reportedly returning home in large numbers.

Comment

¶8. (C) As Slovenia's leaders repeatedly say, "Slovenia is a small and open economy." Slovenia relies heavily on exports - accounting for 90.5% of GDP. The country is and will continue to be at the mercy of the financial crisis in its export markets. But the fundamentals of the Slovenian economy are still strong. It appears to have avoided the banking crisis. It still has some of the lowest unemployment in Europe. It even weathered the gas cutoff from Russia without any rationing or shortages. Slovenia is now in its third year in the Eurozone, a widely acknowledged stabilizing advantage for Slovenia over other former communist countries.

Fourth quarter of 2008 was a very rough quarter for Slovenia, and the first quarter of 2009 will also likely show difficult numbers, but Slovenia has taken steps to counter the effects of the global crisis and, more importantly, to calm investors and manufacturers fears. Standard and Poor's recently signaled confidence in the overall strength of the Slovenian economic fundamentals by reissuing its AAA rating. Fitch Sovereign Ratings gave Slovenia AA. Unlike some of its

neighbors, Slovenia hopes to capitalize on its stability to attract additional foreign investment.
FREDEN